

CITY OF HARTLEY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013

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CITY OF HARTLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clayton Pyle	Mayor	January, 2014
Ron Hengeveld	Council Member	January, 2014
Brad Meendering	Council Member	January, 2014
Jerry Olson	Council Member	January, 2014
Kevin Snider	Council Member	January, 2016
Gina Wiekamp	Council Member	January, 2016
Patty Anderson	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, budgetary comparison information on pages 22 through 23 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by the Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, on our consideration of City of Hartley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hartley's internal control over financial reporting and compliance.

Hunnegelman, Putzier & Co., PLC

March 14, 2014

CITY OF HARTLEY
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Exhibit A

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 304,004	\$ 63,459	\$ 40,227	\$ -	\$ (200,318)	\$ -	\$ (200,318)
Public works	220,751	32,190	160,121	-	(28,440)	-	(28,440)
Culture and recreation	197,565	30,710	9,994	-	(156,861)	-	(156,861)
Community and economic development	190,784	-	45,767	37,442	(107,575)	-	(107,575)
General government	94,732	345	-	-	(94,387)	-	(94,387)
Debt service	122,211	-	-	-	(122,211)	-	(122,211)
Total governmental activities	<u>1,130,047</u>	<u>126,704</u>	<u>256,109</u>	<u>37,442</u>	<u>(709,792)</u>	<u>-</u>	<u>(709,792)</u>
Business-type activities:							
Water	457,381	442,701	1,000	-	-	(13,680)	(13,680)
Sewer	340,555	213,737	533	-	-	(126,285)	(126,285)
Electric	1,513,077	1,643,707	1,834	-	-	132,464	132,464
Gas	645,102	610,652	13,270	-	-	(21,180)	(21,180)
Solid Waste	132,657	148,999	-	-	-	16,342	16,342
Consumer Deposit	18,237	14,340	-	-	-	(3,897)	(3,897)
Cable	128,972	116,157	500	-	-	(12,315)	(12,315)
Total business-type activities	<u>3,235,981</u>	<u>3,190,293</u>	<u>17,137</u>	<u>-</u>	<u>-</u>	<u>(28,551)</u>	<u>(28,551)</u>
Total	<u>\$ 4,366,028</u>	<u>\$ 3,316,997</u>	<u>\$ 273,246</u>	<u>\$ 37,442</u>	<u>(709,792)</u>	<u>(28,551)</u>	<u>(738,343)</u>
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					326,736	-	326,736
Debt service					31,430	-	31,430
Tax increment financing					230,918	-	230,918
Local option sales tax					151,697	-	151,697
Unrestricted interest on investments					18,208	32,209	50,417
Sale of assets					12,100	-	12,100
Miscellaneous					37,668	-	37,668
Transfers					(25,859)	25,859	-
Total general receipts and transfers					<u>782,898</u>	<u>58,068</u>	<u>840,966</u>
Change in cash basis net position					73,106	29,517	102,623
Cash basis net position beginning of year					<u>1,234,184</u>	<u>2,186,056</u>	<u>3,420,240</u>
Cash basis net position end of year					<u>\$ 1,307,290</u>	<u>\$ 2,215,573</u>	<u>\$ 3,522,863</u>

(continued)

CITY OF HARTLEY
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Exhibit A
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Charges for	Operating	Capital	Governmental	Business Type	Total
Disbursements	Services	Grants and	Grants and	Activities	Activities	
		Contributions	Contributions			
Cash Basis Net Position						
Restricted:						
Nonexpendable:						
Cemetery perpetual care				\$ 93,432	\$ -	\$ 93,432
Expendable:						
Streets				254,256	-	254,256
Tax increment financing projects				141,785	-	141,785
Debt service				104,186	596,033	700,219
Other purposes				409,998	-	409,998
Unrestricted				303,633	1,619,540	1,923,173
Total cash basis net position				<u>\$ 1,307,290</u>	<u>\$ 2,215,573</u>	<u>\$ 3,522,863</u>

See notes to financial statements

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B

	Special Revenue						
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust	Nonmajor	Total
Receipts:							
Property tax	\$ 231,706	\$ -	\$ -	\$ -	\$ -	\$ 126,460	\$ 358,166
Tax increment financing	-	-	-	230,918	-	-	230,918
Other city tax	-	-	151,697	-	-	-	151,697
Licenses and permits	1,284	-	-	-	-	-	1,284
Use of money and property	58,135	-	-	-	3,232	-	61,367
Intergovernmental	50,287	160,121	-	-	-	37,442	247,850
Charges for services	76,031	-	-	-	-	-	76,031
Miscellaneous	43,006	-	-	-	-	51,493	94,499
Total receipts	<u>460,449</u>	<u>160,121</u>	<u>151,697</u>	<u>230,918</u>	<u>3,232</u>	<u>215,395</u>	<u>1,221,812</u>
Disbursements:							
Operating:							
Public safety	287,792	-	-	-	-	16,212	304,004
Public works	85,905	125,270	-	-	-	9,576	220,751
Culture and recreation	158,709	-	-	-	32,696	6,160	197,565
Community and economic development	625	-	-	16,354	-	173,805	190,784
General government	91,314	-	-	-	-	3,418	94,732
Debt service	-	-	-	-	-	122,211	122,211
Total disbursements	<u>624,345</u>	<u>125,270</u>	<u>-</u>	<u>16,354</u>	<u>32,696</u>	<u>331,382</u>	<u>1,130,047</u>
Excess (deficiency) of receipts over disbursements	<u>(163,896)</u>	<u>34,851</u>	<u>151,697</u>	<u>214,564</u>	<u>(29,464)</u>	<u>(115,987)</u>	<u>91,765</u>
Other financing sources (uses):							
Proceeds from sale of assets	7,200	-	-	-	-	-	7,200
Operating transfers in	209,145	1,549	-	-	-	214,693	425,387
Operating transfers out	-	(14,395)	(154,305)	(181,095)	-	(101,451)	(451,246)
Total other financing sources (uses)	<u>216,345</u>	<u>(12,846)</u>	<u>(154,305)</u>	<u>(181,095)</u>	<u>-</u>	<u>113,242</u>	<u>(18,659)</u>
Net change in cash balances	52,449	22,005	(2,608)	33,469	(29,464)	(2,745)	73,106
Cash balances beginning of year	<u>255,936</u>	<u>232,251</u>	<u>115,008</u>	<u>108,316</u>	<u>207,016</u>	<u>315,657</u>	<u>1,234,184</u>
Cash balances end of year	<u>\$ 308,385</u>	<u>\$ 254,256</u>	<u>\$ 112,400</u>	<u>\$ 141,785</u>	<u>\$ 177,552</u>	<u>\$ 312,912</u>	<u>\$ 1,307,290</u>

(Continued)

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B
 (Continued)

	Special Revenue					
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust	Nonmajor
						Total
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93,432 \$ 93,432
Restricted for:						
Debt service	-	-	-	-	-	104,186 104,186
Tax increment financing	-	-	-	141,785	-	- 141,785
Streets	-	121,732	-	-	-	- 121,732
Other purposes	-	-	112,400	-	177,552	120,046 409,998
Assigned for equipment	154,228	132,524	-	-	-	- 286,752
Unassigned	154,157	-	-	-	-	(4,752) 149,405
Total cash basis fund balances	<u>\$ 308,385</u>	<u>\$ 254,256</u>	<u>\$ 112,400</u>	<u>\$ 141,785</u>	<u>\$ 177,552</u>	<u>\$ 312,912 \$1,307,290</u>

See notes to financial statements

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Exhibit C

	Enterprise						
	Water	Sewer	Electric	Gas	Cable	Nonmajor	Total
Operating receipts:							
Use of money and property	\$ -	\$ -	\$ 3,698	\$ -	\$ -	\$ 1,498	\$ 5,196
Charges for services	437,461	209,950	1,625,735	609,902	-	146,237	3,029,285
Miscellaneous	6,239	4,320	16,109	14,020	116,657	15,604	172,949
Total operating receipts	443,700	214,270	1,645,542	623,922	116,657	163,339	3,207,430
Operating disbursements:							
Business type activities	348,641	220,357	1,335,642	645,102	12,382	150,894	2,713,018
Excess (deficiency) of operating receipts over operating disbursements	95,059	(6,087)	309,900	(21,180)	104,275	12,445	494,412
Non-operating receipts (disbursements)							
Interest on investments	4,035	870	17,189	4,145	4,291	1,679	32,209
Debt service	(108,740)	(120,198)	(177,435)	-	(116,590)	-	(522,963)
Net non-operating receipts (disbursements)	(104,705)	(119,328)	(160,246)	4,145	(112,299)	1,679	(490,754)
Excess (deficiency) of receipts over disbursements	(9,646)	(125,415)	149,654	(17,035)	(8,024)	14,124	3,658
Transfers in	-	120,101	-	-	-	-	120,101
Transfers out	-	-	(59,206)	(35,036)	-	-	(94,242)
	-	120,101	(59,206)	(35,036)	-	-	25,859
Net change in cash balances	(9,646)	(5,314)	90,448	(52,071)	(8,024)	14,124	29,517
Cash balances beginning of year	224,077	45,033	1,177,216	324,167	261,080	154,483	2,186,056
Cash balances end of year	\$ 214,431	\$ 39,719	\$ 1,267,664	\$ 272,096	\$ 253,056	\$ 168,607	\$ 2,215,573
Cash Basis Fund Balances							
Restricted for debt service	\$ 84,689	\$ 9,961	\$ 383,838	\$ -	\$ 117,545	\$ -	\$ 596,033
Unrestricted	129,742	29,758	883,826	272,096	135,511	168,607	1,619,540
Total cash basis fund balances	\$ 214,431	\$ 39,719	\$ 1,267,664	\$ 272,096	\$ 253,056	\$ 168,607	\$ 2,215,573

See notes to financial statements

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2013:

Receipts:

Contributions from other governments:

City of Hartley	\$ 81,000
City of Sanborn	69,000
Interest	66
	<u>150,066</u>

Disbursements:

Salaries	62,819
Benefits	27,088
Workers compensation insurance	9,061
Property insurance	5,822
Diesel fuel	24,923
Truck maintenance and repairs	15,701
Professional fees	-
Miscellaneous	1,084
	<u>146,498</u>

Net	3,568
Balance, beginning of year	7,586
Balance, end of year	<u>\$ 11,154</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 33.1% interest in Community Cable Television Agency of O'Brien County, a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2013, is \$303,672.

Jointly Governed Organizations -The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2013, were \$20,756.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's natural gas system.

The Cable Fund accounts for receipts and disbursements from the City's cable television system as maintained by Community Cable Television Agency of O'Brien County.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the community and economic development function.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. CASH

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

The City had investments in the Iowa Public Agency Investment Trust valued at \$44,304 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending	Revenue Notes		General Obligation Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2014	417,000	97,991	51,000	22,373	468,000	120,364
2015	427,000	88,332	53,000	20,295	480,000	108,627
2016	436,000	77,251	54,000	18,138	490,000	95,389
2017	374,000	65,958	55,000	15,947	429,000	81,905
2018	174,000	55,626	56,000	13,710	230,000	69,336
2019-2023	915,000	177,143	145,000	48,200	1,060,000	225,343
2024-2028	525,000	51,870	170,000	22,913	695,000	74,783
2029-2033	67,000	2,177	37,000	1,202	104,000	3,379
	<u>\$ 3,335,000</u>	<u>\$ 616,348</u>	<u>\$ 621,000</u>	<u>\$ 162,778</u>	<u>\$ 3,956,000</u>	<u>\$ 779,126</u>

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

3. NOTES PAYABLE - (Continued)

Revenue Notes

Water

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$400,000 and \$1,000,000 in water revenue notes issued in November, 2003 and July, 2009. Proceeds from the notes provided financing for constructing improvements and extensions to the water system. The notes are payable solely from water customer net receipts and are payable through 2018 and 2029, respectively. The total principal and interest remaining to be paid on the bonds is \$1,266,595. For the current year, principal and interest paid and total customer net receipts were \$106,020 and \$95,059, respectively.

Sewer

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,732,000 in sewer revenue notes issued in July and December, 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$1,394,780. For the current year, principal and interest paid and total customer net receipts were \$117,110 and \$(6,087) respectively.

Electric

The city has pledged future electric customer receipts, net of specified operating disbursements, to repay \$775,000 in electric revenue refunding bonds issued in June, 2011. Proceeds from the notes provided financing to retire the outstanding balance, on the call date of August 1, 2011, of \$860,000 of the \$1,900,000 electric revenue capital loan notes issued in February, 2001. The notes are payable solely from electric customer net receipts and are payable through 2017. The total principal and interest remaining to be paid on the notes is \$632,995. For the current year, principal and interest paid and total customer net receipts were \$176,935 and \$309,900 respectively.

Telecommunications

The city has pledged future telecommunication customer receipts, net of specified operating disbursements, to repay \$765,000 in revenue refunding bonds issued in June, 2011. Proceeds from the notes provided financing to retire the outstanding balance of the previous telecommunications revenue capital loan notes issued March 1, 2004. The notes are payable solely from telecommunication customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$617,706. For the current year, principal and interest paid and total customer net receipts were \$116,090 and \$104,275 respectively.

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate sewer, electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

3. NOTES PAYABLE - (Continued)

- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$77,500 for electric, \$76,500 for telecommunications, and \$40,000 for water.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$3,360 for the year ended June 30, 2013. Minimum amounts payable under this operating lease are as follows:

Year Ending <u>June 30</u>	
2014	3,360
2015	3,360
2016	3,360
2017	2,240

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, 2011, were \$58,309, \$50,092, and \$42,497 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2013, primarily relating to the Enterprise Funds, is as follows:

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. COMPENSATED ABSENCES – (Continued)

Vacation	\$ 25,304
Sick Leave	159,971
Total	<u>\$ 185,275</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay in effect at June 30, 2013.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$20,756 for the year ended June 30, 2013.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure costs to the agency have been estimated at \$2,318,800 as of June 30, 2012, which is the latest information available, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2012, deposits of \$1,514,198 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2013, consists of the following:

Transmission capacity	\$ 287,657
Members' advances for transmission capacity	191,344
Other members' capital	20,951
Membership	<u>100</u>
	<u>\$ 500,052</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 15 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$483 for single coverage, \$989 for spouse only coverage, \$914 for employee and child only coverage, and \$1,482 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$187,788 and plan members eligible for benefits contributed \$6,788 to the plan.

10. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 15,000
	Nonmajor governmental funds	99,903
	Enterprise:	
	Electric	59,206
	Gas	35,036
		<u>209,145</u>
Special Revenue:		
Road Use	Nonmajor governmental funds	<u>1,549</u>
Nonmajor governmental funds	Special Revenue:	
	Road Use Tax	14,395
	Tax increment financing	60,993
	Local Option Sales Tax	139,305
		<u>214,693</u>
Enterprise:	Special Revenue:	
Sewer	Tax increment financing	<u>120,101</u>
Total		<u>\$ 545,488</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

13. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$2,500,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa; \$2,066,733 is outstanding at June 30, 2013. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

14. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling \$32,164 during the year ended June 30, 2013.

15. DEFICIT FUND BALANCE

The Owner Occupied Rehab Fund had a deficit balance of \$4,752 at June 30, 2013. This deficit balance is a result of cost incurred prior to the availability of funds. This deficit balance will be eliminated by transfer from other funds

OTHER INFORMATION

CITY OF HARTLEY
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary		Budgeted Amounts		Final
	Funds	Funds				To
	Actual	Actual	Total	Original	Final	Total
						Variance
Receipts:						
Property tax	\$ 358,166	\$ -	\$ 358,166	\$ 358,385	\$ 358,385	\$ (219)
Tax increment financing	230,918	-	230,918	240,000	240,000	(9,082)
Other city tax	151,697	-	151,697	142,000	142,000	9,697
Licenses and permits	1,284	-	1,284	3,575	3,575	(2,291)
Use of money and property	61,367	37,405	98,772	129,078	129,078	(30,306)
Intergovernmental	247,850	-	247,850	284,950	284,950	(37,100)
Charges for service	76,031	3,029,287	3,105,318	3,239,800	3,239,800	(134,482)
Miscellaneous	94,499	172,947	267,446	172,946	172,946	94,500
Total receipts	<u>1,221,812</u>	<u>3,239,639</u>	<u>4,461,451</u>	<u>4,570,734</u>	<u>4,570,734</u>	<u>(109,283)</u>
Disbursements:						
Public safety	304,004	-	304,004	317,812	313,492	9,488
Public works	220,751	-	220,751	267,954	258,634	37,883
Culture and recreation	197,565	-	197,565	215,601	209,012	11,447
Community and economic development	190,784	-	190,784	182,873	182,750	(8,034)
General government	94,732	-	94,732	124,360	157,398	62,666
Debt service	122,211	-	122,211	122,213	122,213	2
Business type activities	-	3,235,981	3,235,981	3,946,933	3,946,933	710,952
Total disbursements	<u>1,130,047</u>	<u>3,235,981</u>	<u>4,366,028</u>	<u>5,177,746</u>	<u>5,190,432</u>	<u>824,404</u>
Excess (deficiency) of receipts over disbursements	91,765	3,658	95,423	(607,012)	(619,698)	715,121
Other financing sources, net	<u>(18,659)</u>	<u>25,859</u>	<u>7,200</u>	<u>-</u>	<u>-</u>	<u>7,200</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	73,106	29,517	102,623	(607,012)	(619,698)	722,321
Balance, beginning of year	<u>1,234,184</u>	<u>2,186,056</u>	<u>3,420,240</u>	<u>2,723,435</u>	<u>2,723,435</u>	<u>696,805</u>
Balance, end of year	<u>\$ 1,307,290</u>	<u>\$ 2,215,573</u>	<u>\$ 3,522,863</u>	<u>\$ 2,116,423</u>	<u>\$ 2,103,737</u>	<u>\$ 1,419,126</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTES TO OTHER INFORMATION
BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2013 the budget was amended one time which increased budgeted disbursements by \$12,686. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the community and economic development function.

SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Schedule 1

	Special Revenue			Permanent		
	Employee	Economic	Owner	Debt	Cemetery	
	Benefits	Development	Occupied	Service	Perpetual	Total
			Rehab		Care	
Receipts:						
Property tax	\$ 95,030	\$ -	\$ -	\$ 31,430	\$ -	\$ 126,460
Intergovernmental	-	-	37,442	-	-	37,442
Miscellaneous	-	50,613	-	-	880	51,493
Total receipts	<u>95,030</u>	<u>50,613</u>	<u>37,442</u>	<u>31,430</u>	<u>880</u>	<u>215,395</u>
Disbursements:						
Operating:						
Public Safety	16,212	-	-	-	-	16,212
Public Works	9,576	-	-	-	-	9,576
Culture and recreation	6,160	-	-	-	-	6,160
Community and economic development	102	107,561	66,142	-	-	173,805
General government	3,418	-	-	-	-	3,418
Debt Service	-	-	-	122,211	-	122,211
Total disbursements	<u>35,468</u>	<u>107,561</u>	<u>66,142</u>	<u>122,211</u>	<u>-</u>	<u>331,382</u>
Excess (deficiency) of receipts over disbursements	<u>59,562</u>	<u>(56,948)</u>	<u>(28,700)</u>	<u>(90,781)</u>	<u>880</u>	<u>(115,987)</u>
Other financing sources (uses):						
Transfers in	-	91,510	-	123,183	-	214,693
Transfers out	(101,451)	-	-	-	-	(101,451)
Total other financing sources and uses	<u>(101,451)</u>	<u>91,510</u>	<u>-</u>	<u>123,183</u>	<u>-</u>	<u>113,242</u>
Net change in cash balances	(41,889)	34,562	(28,700)	32,402	880	(2,745)
Cash balances beginning of year	<u>102,514</u>	<u>24,859</u>	<u>23,948</u>	<u>71,784</u>	<u>92,552</u>	<u>315,657</u>
Cash balances end of year	<u>\$ 60,625</u>	<u>\$ 59,421</u>	<u>\$ (4,752)</u>	<u>\$ 104,186</u>	<u>\$ 93,432</u>	<u>\$ 312,912</u>
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ 93,432	\$ 93,432
Restricted for:						
Debt service	-	-	-	104,186	-	104,186
Other purposes	60,625	59,421	-	-	-	120,046
Unassigned	-	-	(4,752)	-	-	(4,752)
Total cash basis fund balances	<u>\$ 60,625</u>	<u>\$ 59,421</u>	<u>\$ (4,752)</u>	<u>\$ 104,186</u>	<u>\$ 93,432</u>	<u>\$ 312,912</u>

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Schedule 2

	<u>Enterprise</u>		
	<u>Solid</u>	<u>Consumer</u>	
	<u>Waste</u>	<u>Deposit</u>	<u>Total</u>
Operating Receipts:			
Use of money and property	\$ 1,498	\$ -	\$ 1,498
Charges for services	146,237	-	146,237
Miscellaneous	<u>1,264</u>	<u>14,340</u>	<u>15,604</u>
Total operating receipts	148,999	14,340	163,339
Operating disbursements:			
Business type activities	<u>132,657</u>	<u>18,237</u>	<u>150,894</u>
Excess (deficiency) of operating receipts over operating disbursements	16,342	(3,897)	12,445
Non-operating receipts			
Interest on investments	<u>1,679</u>	<u>-</u>	<u>1,679</u>
Net change in cash balances	18,021	(3,897)	14,124
Cash balances beginning of year	<u>112,751</u>	<u>41,732</u>	<u>154,483</u>
Cash balances end of year	<u>\$ 130,772</u>	<u>\$ 37,835</u>	<u>\$ 168,607</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 130,772</u>	<u>\$ 37,835</u>	<u>\$ 168,607</u>

See accompanying independent auditor's report

CITY OF HARTLEY
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed or Forgiven During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Revenue Notes:								
Water	November 1, 2003	4.60% - 5.20%	\$ 400,000	\$ 190,000	\$ -	\$ 30,000	\$ 160,000	\$ 9,380
Sewer	July 20, 2004	3.00	1,300,000	929,000	-	60,000	869,000	27,870
Sewer	December 2, 2004	3.00	432,000	308,000	-	20,000	288,000	9,240
Water	July 1, 2009	3.00	1,000,000	888,000	-	40,000	848,000	26,640
Electric refunding	June 1, 2011	1.00 - 2.40	775,000	775,000	-	165,000	610,000	11,935
Telecommunication refunding	June 1, 2011	1.30 - 3.45	765,000	660,000	-	100,000	560,000	16,090
Total			<u>\$ 4,672,000</u>	<u>\$ 3,750,000</u>	<u>\$ -</u>	<u>\$ 415,000</u>	<u>\$ 3,335,000</u>	<u>\$ 101,155</u>
General Obligation Notes:								
Library	June 1, 2001	5.10%	\$ 400,000	\$ 45,000	\$ -	\$ 45,000	\$ -	\$ 2,295
Street Improvement	June 1, 2008	4.75	280,000	174,000	-	28,000	146,000	8,265
Water	July 1, 2009	3.00	560,000	497,000	-	22,000	475,000	14,910
Total			<u>\$ 1,240,000</u>	<u>\$ 716,000</u>	<u>\$ -</u>	<u>\$ 95,000</u>	<u>\$ 621,000</u>	<u>\$ 25,470</u>

See accompanying independent auditor's report

CITY OF HARTLEY
NOTE MATURITIES
JUNE 30, 2013

Schedule 4

Year	Water Issued November 1, 2003		Sewer Issued July 20, 2004		Sewer Issued December 2, 2004		Water Issued July 1, 2009		Electric Refunding Issued June 1, 2011		Telecom Refunding Issued June 1, 2011		
Ending June 30	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2014	4.75%	\$ 30,000	3.00%	\$ 61,000	3.00%	\$ 20,000	3.00%	\$ 41,000	1.30%	\$ 165,000	1.75%	\$ 100,000	\$ 417,000
2015	4.90	30,000	3.00	63,000	3.00	21,000	3.00	43,000	1.70	170,000	2.20	100,000	427,000
2016	5.00	30,000	3.00	65,000	3.00	22,000	3.00	44,000	2.10	175,000	2.50	100,000	436,000
2017	5.10	35,000	3.00	67,000	3.00	22,000	3.00	45,000	2.40	100,000	2.85	105,000	374,000
2018	5.20	35,000	3.00	69,000	3.00	23,000	3.00	47,000	-	-	3.45	105,000	279,000
2019	-	-	3.00	71,000	3.00	24,000	3.00	48,000	-	-	3.45	50,000	193,000
2020	-	-	3.00	73,000	3.00	24,000	3.00	50,000	-	-	-	-	147,000
2021	-	-	3.00	75,000	3.00	25,000	3.00	52,000	-	-	-	-	152,000
2022	-	-	3.00	78,000	3.00	26,000	3.00	53,000	-	-	-	-	157,000
2023	-	-	3.00	80,000	3.00	26,000	3.00	55,000	-	-	-	-	161,000
2024	-	-	3.00	82,000	3.00	27,000	3.00	57,000	-	-	-	-	166,000
2025	-	-	3.00	85,000	3.00	28,000	3.00	59,000	-	-	-	-	172,000
2026	-	-	-	-	-	-	3.00	61,000	-	-	-	-	61,000
2027	-	-	-	-	-	-	3.00	62,000	-	-	-	-	62,000
2028	-	-	-	-	-	-	3.00	64,000	-	-	-	-	64,000
2029	-	-	-	-	-	-	3.00	67,000	-	-	-	-	67,000
		<u>\$ 160,000</u>		<u>\$ 869,000</u>		<u>\$ 288,000</u>		<u>\$ 848,000</u>		<u>\$ 610,000</u>		<u>\$ 560,000</u>	<u>\$ 3,335,000</u>

General Obligation Notes

Year Ending June 30	Street Improvement Issued June 1, 2008		Water Issued July 1, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	
2014	4.75%	\$ 28,000	3.00%	\$ 23,000	\$ 51,000
2015	4.75	29,000	3.00	24,000	53,000
2016	4.75	29,000	3.00	25,000	54,000
2017	4.75	30,000	3.00	25,000	55,000
2018	4.75	30,000	3.00	26,000	56,000
2019	-	-	3.00	27,000	27,000
2020	-	-	3.00	28,000	28,000
2021	-	-	3.00	29,000	29,000
2022	-	-	3.00	30,000	30,000
2023	-	-	3.00	31,000	31,000
2024	-	-	3.00	32,000	32,000
2025	-	-	3.00	33,000	33,000
2026	-	-	3.00	34,000	34,000
2027	-	-	3.00	35,000	35,000
2028	-	-	3.00	36,000	36,000
2029	-	-	3.00	37,000	37,000
		<u>\$ 146,000</u>		<u>\$ 475,000</u>	<u>\$ 621,000</u>

See accompanying independent auditor's report

CITY OF HARTLEY
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

Schedule 5

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:										
Property tax	\$ 358,166	\$ 351,174	\$ 342,427	\$ 302,921	\$ 285,470	\$ 343,191	\$ 331,406	\$ 257,032	\$ 258,995	\$268,036
Tax increment financing	230,918	260,922	190,144	189,906	197,368	129	51,597	252,592	225,368	195,663
Other city tax	151,697	149,112	148,085	106,729	174,170	144,957	133,908	105,092	104,751	100,648
Licenses and permits	1,284	4,435	3,565	4,295	3,567	5,812	4,822	2,504	1,722	2,276
Use of money and property	61,367	61,638	47,418	49,222	47,659	82,017	92,321	71,301	70,569	51,061
Intergovernmental	247,850	251,754	315,508	194,738	324,980	207,138	313,154	291,785	222,787	193,663
Charges for service	76,031	81,780	81,091	96,188	92,768	80,276	81,220	76,163	59,127	58,675
Special assessments	-	-	335	4,522	7,918	8,844	8,751	10,920	14,771	26,674
Miscellaneous	94,499	71,766	54,489	23,155	43,354	37,964	20,428	36,494	328,814	42,931
Total	<u>\$1,221,812</u>	<u>\$1,232,581</u>	<u>\$1,183,062</u>	<u>\$ 971,676</u>	<u>\$1,177,254</u>	<u>\$ 910,328</u>	<u>\$1,037,607</u>	<u>\$1,103,883</u>	<u>\$1,286,904</u>	<u>\$939,627</u>
Disbursements:										
Operating:										
Public safety	\$ 304,004	\$ 260,136	\$ 254,172	\$ 277,500	\$ 263,584	\$ 247,013	\$ 198,068	\$ 198,068	\$ 239,950	\$215,464
Public works	220,751	221,535	247,237	241,661	293,157	270,278	121,779	121,779	128,081	337,381
Culture and recreation	197,565	195,145	173,987	202,073	326,516	177,783	186,992	186,992	149,383	163,893
Community and economic development	190,784	159,956	169,291	126,477	526,164	218,560	137,104	137,104	64,821	107,193
General government	94,732	94,302	70,400	86,688	93,356	65,888	82,092	82,092	73,675	96,598
Debt service	122,211	120,210	123,135	88,798	56,470	58,660	57,460	57,460	59,300	61,000
Total	<u>\$1,130,047</u>	<u>\$1,051,284</u>	<u>\$1,038,222</u>	<u>\$1,023,197</u>	<u>\$1,559,247</u>	<u>\$1,038,182</u>	<u>\$ 783,495</u>	<u>\$ 783,495</u>	<u>\$ 715,210</u>	<u>\$981,529</u>

See accompanying independent auditor's report

HUNZELMAN, PUTZIER & CO., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 14, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hartley's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hartley's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Hartley's Responses to Findings

City of Hartley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Hartley's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunzelman, Putzier & Co., PLLC

March 14, 2014

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We will continue to look for ways to adjust our operating procedures to obtain the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

- (B) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - The City Clerk/Administrator will try to attend educational courses to be able to report financial data using OCBOA and work with our auditors to make sure we are reporting correctly.

Conclusion - Response accepted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements: - (Continued)

- (C) Utility Billing - Although the City has a process to reconcile daily and monthly utility billing collections to deposits into the bank. There is no documentation that the overall reconciliation of utility billings, collections and delinquent accounts were performed.

Recommendation – Reconciliations of billings, collections, and delinquent accounts should be performed and documented at the end of each month.

Response – Utility billing, collections and delinquent accounts are reconciled daily throughout the year by city staff. Reconciliation is done by city staff printing a daily utility billing cash batch list listing all utility payments/cash received. Another city staff member counts cash and checks, totals them and records them in a collections book showing each total cash and checks for the day. Once they balance, City staff inputs the deposits in the software system.

The total daily cash and checks are balanced to the cash recorded on the utility billing cash batch list plus any misc. receipts collected. This total also is balanced to the total cash and checks recorded in the collections book and a booklet provided by the City's bank. Each time the City takes a deposit to the bank, the bank records the total deposit in the bank booklet.

At the end of each month, City staff totals all daily cash and checks received getting a monthly total. That monthly total is balanced to the bank booklet (where the bank records all daily deposits), monthly bank statements and monthly Treasurer's Report printed from the software system.

The City implemented new software system which was a timely process. The City printed similar reports to balance collections and billings as with the old software except one report illustrating utility billing, delinquent accounts and collections. In the software transition, that report was discontinued and the city was working to provide the same information on the new software. We have worked through the software transition and will provide auditors with reports needed to ensure reconciliation is completed.

Conclusion – Response accepted.

- (D) Cancellation of Invoices – We noted that invoices were not marked paid to help prevent duplicate payment.

Recommendation – All invoices should be properly canceled to prevent reuse.

Response – Invoices will be stamped paid.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We try to control costs and time by amending the budget once a year and situations occur with City expenditures that are beyond our control. We will monitor funds more closely in the future and amend the budget before expenditures exceed the budget.

Conclusion – Response accepted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kevin Snider, Council Member, owner of Snider Auto Care Center	Repairs/service	\$3,507
Sheri Tewes, Deputy Clerk, mother owns Fanning Construction	Labor and materials	\$14,252
Ron Hengeveld, Council Member, owner of Hengeveld Construction	Labor and materials	\$14,405

In accordance with Chapter 362.5(3) (k) of the Code of Iowa, all of the above transactions may represent a conflict of interest since the cumulative amount was more than \$2,500 during the fiscal year.

Recommendation - The Code does allow the City to transact business with City officers or employees in excess of \$2,500 but only if the contract is made subject to a competitive bid in writing, publicly invited, and opened. The City should consult their attorney to determine that they are in compliance with the Code of Iowa.

Response – We will monitor our transactions and make sure we do not have conflict of interest and consult with our city attorney.

Conclusion – Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.
- (8) Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- (9) Excess Balances - The following funds have a balance at June 30, 2013, which is in excess of one year's expenditures:

Special Revenue - Library Expendable Trust
 - Road Use Tax

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Library Expendable Trust - The balance in this account is expendable only according to certain criteria of the trust when it was set up. This amount was received from an estate and it is disbursed according to the library's needs for the specified trust criteria as determined by the Library Board.

Response - Road Use Tax - The excess balance is a result of an Equipment Replacement Plan where we set aside dollars for future replacement of multiple pieces of equipment. The balance will be spent as equipment is replaced.

Conclusion - Response accepted.

- (10) Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, 2012 for the fiscal year ended June 30, 2012, however the amount reported by the City as TIF debt outstanding was overstated by \$37,960.

Recommendation - The City should ensure that the debt amount reported on the Levy Authority Summary agree with the City's records.

Response - The City will ensure the debt amount reported on the Levy Authority Summary agrees with City debt records.

Conclusion - Response accepted.